

Item 34

Gas Accord IV Settlement

A.07-03-012

Statement of Commissioner Timothy Simon

September 20, 2007

Colleagues:

Since this is the tenth anniversary of the Commission's adoption of the original "Gas Accord," the adoption of the Gas Accord IV Settlement warrants a brief review of what the Commission and the gas industry have accomplished.

The heart of any market is the free exchange of goods and services at reasonable prices. The Gas Accord establishes an acceptable range of prices for the transmission and storage of gas on PG&E's system that makes it possible for buyers and sellers to come together in a gas market.

The Gas Accord establishes a procedure for allocating "firm" and "as available" transmission services on PG&E's system. It enables the holders of transmission space on the pipeline to resell unneeded space. It permits gas shippers, marketers, and buyers to acquire the transmission and storage services that they need to get gas to their customers.

Even more importantly, the Gas Accord protects the captive core ratepayers by permitting them first rights in reserving space on the transmission and storage system.

Thus, the Gas Accord provides the critical elements needed to establish a market that permits Californians to acquire natural gas directly from gas producers wherever they can and to obtain reasonable gas transportation and storage services.

Item 34 is the 4th Gas Accord decision to come before this Commission. This particular proceeding involved 31 parties, yet they were able to achieve a settlement that produces only modest changes to the prices negotiated in the 3rd Gas Accord. It is an "all-party" settlement. Thus, although the matters decided in Item 34 are important to California, and there is no controversy associated with this proposed decision.

As a new Commissioner whose perception of the Public Utilities Commission was shaped by the electricity crisis, I was struck by the modesty and pragmatism of the introduction of "direct access" into natural gas markets. This approach stands in marked contrast to the approach taken in electric markets.

First, "Electricity Restructuring" established a single "grid operator" to operate the transmission grid and check the market power of transmission owners; the Gas Accord left the pipelines in the hands of PG&E and checked its power through simple price regulation, an action in the Commission's area of core competency.

Second, while "Electrical Restructuring" created a grand "Power Exchange" through which almost all electric power would pass and which would establish prices, the Gas Accord permits buyers and

sellers of gas to set bilateral contracts. This avoids the creation of an "exchange," such as the power exchange or "PX," that could be subject to manipulation as we experienced during the energy crisis.

Third, while "Electrical Restructuring" provided captive ratepayers with rate guarantees, which both contributed to the electricity crisis and provided no protection for customers, the Gas Accord gives the core ratepayers first rights to the services of the transmission infrastructure that their rates have financed over the years.

In summary, it strikes me that the introduction of modest market reforms into the natural gas markets has served Californians well while protecting captive ratepayers. It is difficult to believe that the regulatory and political process that created this non-controversial gas market reform is the same one that failed to serve the public interest in electric markets. As this Commission moves forward in electric markets, I hope we will be able to draw lessons from its successful experience in gas markets – and in telecommunications markets as well – to apply to electric markets. I urge both the Commission's DRA and Energy Division to take steps to ensure that the experience of those working in the gas industry is brought to bear on electricity matters.

I note that at the last Commission meeting we unanimously voted to implement a similar model for the Sempra Utilities service territory.

Finally, I wish to thank ALJ John Wong for his careful work on this proposed decision. I ask your support for this proposed decision today and move its adoption.